

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Schoolcraft County Medical Care Facility		County Schoolcraft	
Fiscal Year End September 30, 2006		Opinion Date December 1, 2006		Date Audit Report Submitted to State March 30, 2007			

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			Telephone Number 906-786-3111	
Street Address 901 Ludington Street			City Escanaba	State MI
			Zip 49829	
Authorizing CPA Signature 		Printed Name Alan M. Stotz, CPA		License Number 1599539

SCHOOLCRAFT COUNTY MEDICAL
CARE FACILITY

FINANCIAL STATEMENTS

For the Years Ended
September 30, 2006 and 2005

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Schoolcraft County Department
of Human Services Board
Schoolcraft County Medical Care Facility
Manistique, MI 49854

We have audited the accompanying statements of net assets of the Schoolcraft County Medical Care Facility (a component unit of Schoolcraft County, Michigan) as of September 30, 2006 and 2005 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United State of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Schoolcraft County Medical Care Facility and do not purport to, and do not, present fairly the financial position of the County of Schoolcraft, Michigan, as of September 30, 2006, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schoolcraft County Medical Care Facility at September 30, 2006 and 2005 and the changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Schoolcraft County Department of
Human Services Board
Schoolcraft County Medical Care Facility

The management's discussion and analysis on pages 3 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Schoolcraft County Medical Care Facility. The accompanying schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company P.C.

Certified Public Accountants

December 1, 2006

Schoolcraft County Medical Care Facility

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Schoolcraft County Medical Care Facility's financial performance provides an overview of the Facility's financial activities for the year ended September 30, 2006. Please read it in conjunction with the financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

Net assets for the Facility as a whole were reported at \$5,834,388 and \$5,376,927, as of September 30, 2006 and 2005, respectively. Net assets are comprised of 100% business-type activities.

During the year the Facility's total expenses were \$6,670,692, while revenues from all sources totaled \$7,110,841 resulting in an increase in net assets of \$440,149. This is compared with total expenses of \$6,004,119, total revenues of \$5,673,572 and a decrease in net assets of (\$330,547) for the year ended September 30, 2005.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 8 and 9) provide information about the activities of the Facility as a whole and present a longer-term view of the Facility's finances.

Reporting the Facility as a Whole

One of the most important questions asked about the Facility's finances is "is the Facility as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Facility as a whole and about its' activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Facility's net assets and changes in them. You can think of the Facility's net assets – the difference between assets and liabilities – as one way to measure the Facility's financial health, or financial position. Over time, increases or decreases in the Facility's net assets are one indicator of whether its' financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Facility's resident base and the condition of the Facility's capital assets, to assess the overall financial health of the Facility.

Schoolcraft County Medical Care Facility

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, we report all of the Facility's activities as business-type activities because the Facility charges a fee to residents to help it cover the cost of the services it provides.

The Facility as a Whole

Table 1 provides a summary of the Facility's net assets as of September 30, 2006 and 2005.

Table 1
Net Assets

	<u>2006</u>	<u>2005</u>
Current assets	\$ 1,771,345	\$ 1,173,993
Restricted assets	248,559	248,097
Capital assets, net	<u>3,814,484</u>	<u>3,954,837</u>
Total Assets	<u>\$ 5,834,388</u>	<u>\$ 5,376,927</u>
Current liabilities	<u>\$ 488,977</u>	<u>\$ 471,665</u>
Net Assets:		
Invested in capital assets	\$ 3,814,484	\$ 3,954,837
Unrestricted	<u>1,530,927</u>	<u>950,425</u>
Total Net Assets	<u>\$ 5,345,411</u>	<u>\$ 4,905,262</u>

Net assets of the Facility's activities stood at \$5,345,411. Unrestricted net assets – the part of the net assets that could be used to finance day-to-day activities stood at \$1,530,927.

The \$1,530,927 in unrestricted net assets represents the accumulated results of all past years' operations. The results of this years' operations for the Facility as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (also see Table 2), which shows the changes in net assets for fiscal years 2006 and 2005.

Schoolcraft County Medical Care Facility

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Table 2
Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Net resident service revenue	\$ 6,144,439	\$ 5,409,433
Other operating revenues	<u>957,938</u>	<u>243,366</u>
Total Operating Revenues	<u>7,102,377</u>	<u>5,652,799</u>
Operating expenses:		
Salaries	3,440,994	3,135,888
Other expenses	<u>3,229,698</u>	<u>2,868,231</u>
Total Operating Expenses	<u>6,670,692</u>	<u>6,004,119</u>
Operating Profit (Loss)	431,685	(351,320)
Non-operating revenue		
Interest income	<u>8,464</u>	<u>20,773</u>
Increase (decrease) in Net Assets	440,149	(330,547)
Net Assets, beginning of year	<u>4,905,262</u>	<u>5,235,809</u>
Net Assets, end of year	<u>\$ 5,345,411</u>	<u>\$ 4,905,262</u>

The Facility's total revenues were \$7,110,841. The total cost of all programs and services was \$6,670,692 leaving an increase in net assets of \$440,149 as a result of fiscal year 2006 operations. The fiscal year increase in net assets is due primarily to the quality assurance payment received from the Medicaid program.

Debt

The Facility has no outstanding debt as of September 30, 2006.

Economic Factors and Next Year's Budget

The Facility's appointed officials and its' administration consider many factors when setting the fiscal year 2007 budget. One of those factors is the economy. The Facility is heavily dependent upon Medicaid revenue. With the current budget constraints facing the state and federal government the Facility can expect very little in enhanced Medicaid

Schoolcraft County Medical Care Facility

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

revenue. The FY2007 Medicaid rate was not finalized when the budget was prepared and is also subject to mid-year adjustments. On the expense side, significant increases in health insurance and energy costs will negatively impact operating income.

The Facility's board and administration will closely monitor developments in the Medicaid rate setting process and adjust the budget accordingly.

Contacting the Facility's Financial Management

This financial report is designed to provide our taxpayers, creditors and other users with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Facility Administrator at the Schoolcraft County Medical Care Facility, 520 Main Street, Manistique, Michigan, 49854.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

STATEMENTS OF NET ASSETS

September 30, 2006 and 2005

ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT ASSETS:		
Cash	\$1,179,485	\$ 794,818
Accounts receivable - Net of allowance for bad debts	540,662	379,175
Prepaid expenses	<u>51,198</u>	<u>-</u>
TOTAL CURRENT ASSETS	<u>1,771,345</u>	<u>1,173,993</u>
RESTRICTED ASSETS:		
Cash	248,559	247,168
Interest receivable	<u>-</u>	<u>929</u>
TOTAL RESTRICTED ASSETS	<u>248,559</u>	<u>248,097</u>
PROPERTY AND EQUIPMENT - Net of accumulated depreciation of \$2,659,802 and \$2,459,588	<u>3,814,484</u>	<u>3,954,837</u>
TOTAL ASSETS	<u>\$5,834,388</u>	<u>\$5,376,927</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 116,593	\$ 63,206
Construction accounts payable	-	90,000
Resident trust liability	3,713	2,322
Accrued liabilities:		
Salaries and related taxes	93,037	84,103
Compensated absences	226,088	182,488
Other	1,546	1,546
Third-party settlements payable	<u>48,000</u>	<u>48,000</u>
TOTAL CURRENT LIABILITIES	<u>488,977</u>	<u>471,665</u>
NET ASSETS:		
Invested in capital assets - Net of related debt	3,814,484	3,954,837
Unrestricted	<u>1,530,927</u>	<u>950,425</u>
TOTAL NET ASSETS	<u>5,345,411</u>	<u>4,905,262</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$5,834,388</u>	<u>\$5,376,927</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

STATEMENTS OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS

For the years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUE:		
Net resident service revenue	\$6,144,439	\$5,409,433
Proportionate share revenue	-	205,358
Quality assurance supplement	871,704	-
Other operating revenue	<u>86,234</u>	<u>38,008</u>
TOTAL OPERATING REVENUE	<u>7,102,377</u>	<u>5,652,799</u>
OPERATING EXPENSES:		
Salaries	3,440,994	3,135,888
Other expenses	<u>3,229,698</u>	<u>2,868,231</u>
TOTAL OPERATING EXPENSES	<u>6,670,692</u>	<u>6,004,119</u>
Operating Income (Loss)	431,685	(351,320)
NON-OPERATING REVENUE:		
Interest income	<u>8,464</u>	<u>20,773</u>
Excess of Revenue (Expenses)	440,149	(330,547)
Net Assets - Beginning of year	<u>4,905,262</u>	<u>5,235,809</u>
NET ASSETS - END OF YEAR	<u>\$5,345,411</u>	<u>\$4,905,262</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

STATEMENTS OF CASH FLOWS

For the years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents and third-party payors	\$6,940,890	\$5,565,126
Cash paid to employees and suppliers	(6,504,365)	(5,970,022)
Proportionate share receipts	<u>-</u>	<u>205,358</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>436,525</u>	<u>(199,538)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	<u>9,393</u>	<u>18,956</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:		
Purchase of property and equipment	<u>(59,860)</u>	<u>(1,847,744)</u>
NET INCREASE (DECREASE) IN CASH	386,058	(2,028,326)
Cash - beginning of year	<u>1,041,986</u>	<u>3,070,312</u>
CASH - END OF YEAR	<u><u>\$1,428,044</u></u>	<u><u>\$1,041,986</u></u>
A reconciliation of operating income (loss) to cash from operating activities is as follows:		
Operating income (loss)	\$ 431,685	\$ (351,320)
Adjustments to reconcile income (loss) to net cash from operating activities:		
Depreciation	200,213	164,738
(Increase) decrease in assets:		
Accounts receivable	(161,487)	115,809
Prepaid expenses	(51,198)	1,876
Increase (decrease) in liabilities:		
Accounts payable	(36,613)	(177,631)
Accrued liabilities	<u>53,925</u>	<u>46,990</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 436,525</u></u>	<u><u>\$(199,538)</u></u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schoolcraft County Medical Care Facility (the "Facility") is a component unit of the County of Schoolcraft.

The Facility is a 105 bed, long-term medical care unit owned and operated by Schoolcraft County (the "County"). It is governed by the Schoolcraft County Department of Human Services Board. The Board consists of three members, two of whom are appointed by the Schoolcraft County Board of Commissioners and one appointed by the Michigan governor. Further, the Schoolcraft County Department of Human Services Board approves the budget for the Facility and submits a copy to the Schoolcraft County Board of Commissioners.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed by a user charge, the Facility is accounted for as an Enterprise Fund, utilizing the full accrual method of accounting. The Facility applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued after November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

A. Basis for Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments*. The Facility now follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provides a comprehensive look at the Facility's financial activities. There was no impact to the net assets of the Facility in adopting GASB No. 34.

B. Property and Equipment - All property and equipment are valued at historical cost. Donated assets are recorded at the fair market value at the time of the donation. Depreciation on such fixed assets is charged as an expense on a straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

C. Resident Trust Liability - The Michigan Department of Treasury requires facilities to administer and account for monies of residents. The resident trust liability on the balance sheet represents resident trust fund deposits.

D. Compensated Absences - Sick and vacation pay is charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Net Assets - Net assets of the Facility are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt.

F. Net Resident Service Revenue - Net resident service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Approximately 90% in 2006 and 92% in 2005 of the total daily room revenue from resident services is received from the Medicare and Medicaid programs. The Facility has agreements with the Medicare and Medicaid programs to provide reimbursement to the Facility at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Facility's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

Medicare - Services rendered to Medicare program beneficiaries are reimbursed at prospectively determined rates based on clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Medicaid - Services rendered to Medicaid program beneficiaries are reimbursed on a per diem basis based on a cost reimbursement methodology.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

G. Proportionate Share Reimbursement Program (PSRP) - During the years ended September 30, 2005, the Facility participated in the PSRP sponsored by the State of Michigan.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 and 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The PSRP resulted in revenue of \$205,358 for the year ended September 30, 2005.

H. Property Taxes - The Facility has a two mill levy for maintenance of effort (MOE). The taxes are levied on December 1 of each year. On February 28 of each year, the taxes collected are transferred to the millage fund. MOE is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid resident day approved by the State during that month. The County pays MOE directly to the State from the millage fund and accounts for the property tax collection and MOE payments.

In 1995, Schoolcraft County had a millage levy for the payment of \$1,900,000 bond. Proceeds have been used for an addition to and renovation of the Facility. Once the construction was completed, the asset was transferred to the Facility. The County paid the construction costs with property tax revenue received. At September 30, 2006 and 2005, the bond balance was \$1,325,000 and \$1,430,000, respectively. Both the property tax revenue and bond are accounted for by the County. During the fiscal year this bond was refinanced. Further information on this refinancing may be obtained from the Schoolcraft County financial report.

I. Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

J. Reclassification - Certain reclassifications have been made in the 2005 comparative totals to conform to the reclassifications used in 2006. Any reclassifications made were not material to the financial statements.

K. Restricted Assets - When transactions occur that could be taken from either restricted or unrestricted assets it is the Facility's policy to use restricted assets first.

NOTE B - CASH

All of the Facility's cash is held by the Schoolcraft County Treasurer with the exception of \$200 of petty cash and the Resident Trust Account. The Resident Trust Account had a book balance of \$3,713 and \$2,322 on September 30, 2006 and 2005, respectively, and a bank balance of the same in both years. Of the bank balance 100% was covered by FDIC insurance.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 and 2005

NOTE B - CASH (continued)

Because the remainder of the cash balances are held by the Schoolcraft County Treasurer the insurability and risk disclosures for those balances are contained in the Schoolcraft County audit report.

NOTE C - ACCOUNTS RECEIVABLE

The details of accounts receivable are set forth below:

	<u>2006</u>	<u>2005</u>
Resident receivables	\$ 527,117	\$ 563,169
Less allowances for uncollectible accounts	<u>(15,000)</u>	<u>(15,000)</u>
Resident accounts receivable	512,117	548,169
Medicaid interim payment reconciliation	<u>28,545</u>	<u>(168,994)</u>
Net resident accounts receivable	<u>\$ 540,662</u>	<u>\$ 379,175</u>

Medicaid interim payment reconciliation includes net Medicaid charges processed by Medicaid which are greater than (less than) the interim payments made by Medicaid.

NOTE D - PROPERTY AND EQUIPMENT

Cost of property and equipment and depreciable lives are summarized as follows:

	<u>2006</u>	<u>Depreciable Life-Years</u>	<u>2005</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>2006</u>
Cost:						
Land improvements		-	\$ 37,666	\$ -	\$ -	\$ 37,666
Building		5-40	5,439,040	47,362	-	5,486,402
Furniture, fixtures, and equipment		3-20	<u>937,720</u>	<u>12,498</u>	-	<u>950,218</u>
TOTAL			<u>6,414,426</u>	<u>\$ 59,860</u>	<u>\$ -</u>	<u>6,474,286</u>
Accumulated depreciation:						
Land improvements			37,488	\$ -	\$ -	37,488
Building			1,824,468	149,720	-	1,974,188
Furniture, fixtures, and equipment			<u>597,633</u>	<u>50,493</u>	-	<u>648,126</u>
TOTAL			<u>2,459,589</u>	<u>\$ 200,213</u>	<u>\$ -</u>	<u>2,659,802</u>
Net carrying amount			<u>\$3,954,837</u>			<u>\$3,814,484</u>

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 and 2005

NOTE D - PROPERTY AND EQUIPMENT (continued)

2005	Depreciable Life-Years	2004	Additions	Retirements/ Transfers	2005
Cost:					
Land improvements	-	\$ 9,996	\$ 27,670	\$ -	\$ 37,666
Building	5-40	3,349,292	2,089,748	-	5,439,040
Furniture, fixtures, and equipment	3-20	867,377	80,624	10,282	937,719
Construction in progress	-	362,978	-	362,978	-
TOTAL		4,589,643	\$2,198,042	\$ 373,260	6,414,425
Accumulated depreciation:					
Land improvements		-	\$ 37,488	\$ -	37,488
Building		1,692,080	132,388	-	1,824,468
Furniture, fixtures, and equipment		626,619	-	28,987	597,632
TOTAL		2,318,699	\$ 169,876	\$ 28,987	2,459,588
Net carrying amount		\$2,270,944			\$3,954,837

NOTE E - ACCRUED VACATION, SICK AND COMPENSATED TIME OFF

The Facility's policies regarding vacation, sick and compensated time off (CTO) allow non-union employees to accumulate earned but unused vacation and sick time, and for union employees to accumulate earned but unused CTO. The liability for these compensated absences is recorded as an accrued liability on the Statement of Net Assets. As of September 30, 2006, the total accrued vacation, sick and CTO was \$17,472, \$83,578 and \$125,038, respectively.

NOTE F - DEFINED BENEFIT MULTI-EMPLOYER PENSION PLAN

Plan Description - The Facility participates in the Schoolcraft County Pension Plan, which is a multiple-employer defined pension plan that covers all full-time and part-time employees of the Facility who have completed six months of service and elect to receive coverage. The plan provides retirement benefits, as well as death and disability benefits, to plan members and their beneficiaries. At December 31, 2005, the date of the most recent actuarial valuation, membership consisted of 30 retirees and beneficiaries currently receiving benefits and 4 terminated employees entitled to benefits but not yet receiving them, and 108 current active employees. The plan does not issue a separate financial report specifically for the Facility.

Funding Policy - The obligation to contribute to and maintain the system for covered employees was established in the Schoolcraft County Pension Plan, and requires a contribution from the Facility equal to the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The Facility's contributions to the plan for the plan years ended September 30, 2006 and 2005 were \$340,464 and \$280,264, respectively.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 and 2005

NOTE F - DEFINED BENEFIT MULTI-EMPLOYER PENSION PLAN (continued)

Annual Pension Cost - The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost funding method. Significant actuarial assumptions used include (a) an 8% investment rate of return, (b) projected salary increases of 4.5% per year attributable to inflation, and (c) additional projected salary increases of 0.0% to approximately 8% per year, depending on age, attributable to seniority/merit.

Three-year trend information for the Schoolcraft County Pension Plan is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2003	\$ 630,196	100.00	\$ -
September 30, 2004	613,437	100.00	-
September 30, 2005	618,136	100.00	-

NOTE G - RISK MANAGEMENT

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for malpractice and general liability claims, workers' compensation, and employee medical benefit claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Facility is insured against potential professional liability claims under an occurrence-basis policy, whereby all claims resulting from incidents that occur during the policy are covered up to insured limits, regardless of when the claims are reported to the insurance carrier. There are no known outstanding or pending claims at September 30, 2006 or 2005.

SUPPLEMENTAL INFORMATION

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

SCHEDULE OF NET RESIDENT SERVICE REVENUE

For the years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
DAILY ROOM REVENUE:		
Medicaid	\$4,707,995	\$4,412,993
Medicare	402,165	476,630
Private pay and other	<u>558,888</u>	<u>416,527</u>
TOTAL DAILY ROOM REVENUE	<u>5,669,048</u>	<u>5,306,150</u>
ANCILLARY REVENUE:		
Drugs charged to residents	123,388	103,429
Physical therapy	104,140	126,155
Occupational therapy	96,576	59,582
Speech therapy	19,834	24,553
Respiratory therapy	735	1,101
Medical supplies	15,345	2,484
Laboratory	49,112	77,932
Radiology	<u>23,024</u>	<u>22,210</u>
TOTAL ANCILLARY REVENUE	<u>432,154</u>	<u>417,446</u>
TOTAL RESIDENT REVENUE	<u>6,101,202</u>	<u>5,723,596</u>
REVENUE DEDUCTIONS AND SETTLEMENTS:		
Provisions for contractual discounts	(118,755)	(245,803)
Third-party settlements	<u>161,992</u>	<u>(68,360)</u>
TOTAL REVENUE DEDUCTIONS AND SETTLEMENTS	<u>43,237</u>	<u>(314,163)</u>
NET RESIDENT SERVICE REVENUE	<u>\$6,144,439</u>	<u>\$5,409,433</u>

See accompanying notes to financial statements.

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

SCHEDULE OF OPERATING EXPENSES

For the years ended September 30, 2006 and 2005

	<u>2006</u>			<u>2005</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
Administration	\$ 237,980	\$ 201,125	\$ 439,105	\$ 481,350
Maintenance	120,355	66,142	186,497	166,258
Laundry	-	127,090	127,090	125,448
Housekeeping	244,837	26,578	271,415	262,615
Dietary	280,474	469,494	749,968	893,054
Pharmacy	-	133,592	133,592	123,733
Nursing	2,335,791	133,092	2,468,883	2,353,105
Physical therapy	-	107,295	107,295	109,359
Occupational therapy	-	63,215	63,215	36,756
Speech therapy	-	4,568	4,568	7,886
Social services	81,781	242	82,023	87,055
Diversional therapy	139,776	3,428	143,204	145,090
Laboratory	-	36,551	36,551	36,807
Radiology	-	16,714	16,714	14,837
Utilities	-	185,169	185,169	124,892
Fringe benefits	-	887,663	887,663	871,136
Depreciation	-	200,213	200,213	164,738
Miscellaneous				
- Refunds	-	13,545	13,545	-
- Cost Settlement	-	24,281	24,281	-
- Provider Tax Expense	-	529,701	529,701	-
 TOTALS - 2006	 <u>\$3,440,994</u>	 <u>\$3,229,698</u>	 <u>\$6,670,692</u>	
 TOTALS - 2005	 <u>\$3,135,888</u>	 <u>\$2,868,231</u>		 <u>\$6,004,119</u>

See accompanying notes to financial statements.



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA

REPORT TO MANAGEMENT

To the Schoolcraft County Department
of Human Services Board
Manistique, MI 49854

We have audited the financial statements of the Schoolcraft County Medical Care Facility for the year ended September 30, 2006, and have issued our reports thereon dated December 1, 2006. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U. S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

In planning and performing our audit, we considered the Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

As part of our audit, we considered the internal control structure of the Facility. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Schoolcraft County Department
of Human Services Board
Manistique, Michigan

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Facility are described in Note A of the financial statements. No new accounting policies were adopted and the application of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Facility during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate would involve the useful lives of fixed assets. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do not have a significant effect on the financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Facility or a determination of the type of auditor's opinion to be expressed on those statements, our professional

Schoolcraft County Department
of Human Services Board
Manistique, Michigan

standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Facility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the Facility, for the year ended September 30, 2006, we considered the Facility's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 1, 2006, on the financial statements of the Facility.

We have already discussed many of these comments and suggestions with various Facility personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the Board, the management of the Facility and applicable State and Federal grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

December 1, 2006

SCHOOLCRAFT COUNTY MEDICAL CARE FACILITY

COMMENTS AND RECOMMENDATIONS

September 30, 2006

CREDIT CARD POLICY

We noted during our audit that the Facility uses a credit card to make certain purchases. We recommend that to comply with MCL 129.242(1) the Board adopt a written credit card policy that would address such issues as who is authorized to use the card, what documentation is required for appropriate approval, who would approve the use of the card as well as other controls over the use of the card. This policy would assist in defining the use of and the approval of the credit card charges.

INTEREST INCOME

During the audit we noted that the Facility does not receive interest income from the cash balance maintained with the County Treasurer. This has been done over the years as a substitute for indirect charges for the County Treasurer's services. We recommend that the Facility Board pursue obtaining the interest income from the County and to pay the appropriate indirect charges for the County Treasurer's services. The indirect charges would affect the Facility's cost calculations and could result in additional reimbursement revenue.